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FM AMEMBASSY BRATISLAVA
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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHKV/AMEMBASSY KYIV PRIORITY 0036
RUEHMO/AMEMBASSY MOSCOW PRIORITY 0671
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 BRATISLAVA 000035

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E.O. 12958: DECL: 01/25/2018
TAGS: [ENRG](#) [ECON](#) [EPET](#) [PREL](#) [LO](#) [RS](#)
SUBJECT: SLOVAKS TO NEGOTIATE FOR TRANSPETROL STAKE

REF: 07 BRATISLAVA 631

Classified By: Ambassador Vincent Obsitnik for reasons 1.4 b) and d)

11. (C) Summary - In a January 18 meeting with the Ambassador, Economy Minister Lubomir Jahnatek said that the GOS has resumed its efforts to buy back the 49 percent Transpetrol stake from Dutch-based Yukos Finance (YF). Jahnatek stated that he had concurrence from the Russian side to go ahead with negotiations as long as the proceeds from the sale are put into an escrow account until the legal disputes over YF's ownership and claims to its assets are settled. Minister Jahnatek requested the Embassy to contact and inform the Khodorkovsky-appointed YF directors that the GOS is ready to begin negotiations. The GOS will then initiate a direct dialogue. In response to earlier requests by YF representatives, Jahnatek noted that the GOS had commissioned a valuation of Transpetrol to determine a fair price and expressed his willingness to meet with YF Directors in either the U.S. or London, which was a request by YF to avoid Russian attempts to extradite the directors on criminal charges. A few legal issues need to be worked out before the negotiations resume and YF needs to determine if two party negotiations are in their best interest, but for the first time since August 2006 the GOS is taking proactive steps to buy back the stake. End Summary.

A CLEAR MESSAGE

12. (C) After more than one and a half years of hand wringing over the muddled legal situation surrounding Transpetrol, Economy Minister Jahnatek made it clear to the Ambassador in their 1/18 meeting that he now has the necessary permissions and is taking proactive steps to buy back the 49 percent pipeline stake from YF. Jahnatek had made a similar statement in the press earlier in the week. Jahnatek noted that he had been given the go-ahead by the 'Russian side' during his 12/21 trip to Moscow, where he reportedly met with Deputy Prime Minister Sergey Naryshkin and representatives from Gazprom. (Note: In theory Russia gave up its ownership interest in YF when the asset was auctioned off in Moscow to Monte Valle, an American led investment group, for \$305 million in August 2007. Rosneft still has outstanding claims on a portion of the more than USD 1.5 billion in YF assets. Throughout this process Jahnatek has reiterated that a deal would not be possible without Russian approval. End Note.) We are aware of an independent effort last November by the Chair of the Parliamentary Economic Committee, Maros Kondrot, to get Prime Minister Fico's support for a buyback, which appears to have been successful given Jahnatek's positive approach. Jahnatek noted in the press that he "sees no financial problem in repurchasing the Transpetrol shares," which further suggests that the cabinet has given its consent to move forward with negotiations.

13. (SBU) When Jahnatek last met with YF representatives in November (see Reftel), the main sticking point was price, along with Jahnatek's unwillingness to provide an analytical basis for his opening position. YF had presented the GOS with its own valuation last July and argued that in the absence of other analyses their valuation would be the basis for future discussions. Jahnatek told us that he has now commissioned his own valuation from a reputable consulting firm. In a follow-on meeting, Economy State Secretary Peter Ziga told Econoff that MOE had issued a tender for the valuation and has received bids from three reputable international firms. Ziga expects that the tender process will be finalized by the end of February and the valuation completed by the end of March, which would allow for negotiations to resume in April.

14. (SBU) To get around the multitude of ongoing legal disputes in the Netherlands regarding the control of YF as well as the claims on YF's assets, Jahnatek proposed having the proceeds from a Transpetrol deal put into an escrow account in the Netherlands, a suggestion that he indicated was supported by Russia. Jahnatek also agreed to the YF proposal to travel to London, or if necessary to the U.S., to meet with YF Directors Dave Godfrey and Bruce Misamore, who are unwilling to travel to continental Europe due to the pending criminal charges against them in Russia related to the Yukos bankruptcy.

15. (C) In response to a question by the Ambassador, Jahnatek reiterated his previous position that the GOS remains opposed to any deal that would lead to a third-party purchase of the 49 percent stake at this time. He commented that a third party would never be able to reach a deal with the relevant

BRATISLAVA 00000035 002 OF 002

parties in the transaction: the GOS, YF and Russia. (Note: Jahnatek did not mention the claim to YF by Monte Valle. Ziga said that Monte Valle has never contacted the GOS directly, noting that he did not expect them to gain control over YF, though he noted that this is still a possibility. End Note.) Jahnatek argued that the GOS would be in a better position than a third party stakeholder to work with Russia as well as pursue other deals to bring Caspian crude to the Druzhba pipeline or develop future projects such as the expansion to the Schwechat refinery in Austria. Ziga noted the fact that under the shareholders agreement majority control of Transpetrol would return to the GOS if YF sold the 49 percent stake in an auction.

LACK OF LEGAL CLARITY

16. (C) Due to ongoing legal complications in the Netherlands, YF Directors Godfrey and Misamore have been unable to effect the October court decision that returned control of YF to them by getting their names put back on the Dutch Commercial Registry. YF's local representative and Transpetrol Board Member Jan Kridla told us that YF is making progress towards this goal and hopes to have the issue resolved in the coming weeks. Ziga stated that the Slovak government believes that Godfrey and Misamore are the legal representatives based on the October court decision, which the GOS lawyers have reviewed, but they maintain that they will not be able to complete a deal until this issue is resolved. Showing more flexibility than the past, Ziga commented that the GOS did not need to hold up talks due to this or other pending legal complications. MOE has requested an overview from YF of the outstanding legal issues. These include an appeal of the October court decision, a case brought by Monte Valle in the Dutch Enterprise Chamber, and a December 20 Dutch court decision that Yukos Finance should be auctioned off in the Netherlands.

YF DIRECTORS REMAIN SKEPTICAL

¶7. (C) Encouraged by the new proactive approach by the GOS, Kridla stated that he still has to convince the YF leadership that Slovakia is sincere in their commitment to negotiate in good faith. YF was apparently ready to give up on the GOS altogether and go forward with an auction of the 49 percent stake when Jahnatek made his announcement to the press last week. Kridla said that there were differing views on how to move forward, but that he expected Godfrey and Misamore to ultimately accept Jahnatek's offer since it would offer the least complicated means of selling Transpetrol by avoiding a new round of litigation with the GOS.

COMMENT

¶8. (C) Both the Minister and his deputy are now committed to negotiations, focused on how to move the process forward instead of all of the reasons a buyback may not work out. Jahnatek's shift from a passive actor in a larger dispute to an engaged negotiator looking to make a deal would not have been possible without having received a clear signal from Russian authorities during his pre-Christmas visit to Moscow.

Whether this is part of a larger agreement with Moscow, possibly related to future energy projects and/or ongoing long-term gas supply contract negotiations, is not clear. It nevertheless offers the best possibility to resolve this long-standing issue in a way that is beneficial to the GOS, YF, and the diversity of oil supplies in the region. End Comment.

OBSITNIK